


AUDIT AND MANAGEMENT CONSULTING DIVISION
OFFICE OF INTERNAL OVERSIGHT SERVICES

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10 July 2000

To: Mr. Jean-Claude Aimé, Executive Secretary
United Nations Compensation Commission

From: Esther Stern, Director 
Audit and Management Consulting Division
Office of Internal Oversight Services

Subject: **OIOS Audit No. AE1999/8/2: UNCC – Claims payments and administration**

1. I am pleased to present our report on the audit of the UNCC claims payment and administration, which was conducted during the period from November 1999 through February 2000. Management's comments have been reflected in the report where appropriate and are marked in italics.

2. I would like to take this opportunity to thank the staff of UNCC for their assistance and cooperation in conducting this audit.

Audit objectives and scope

3. The objectives of the audit were to:

- (a) Determine whether the Claims Payment Section's (CPS) processing and management of claims payments, maintenance of records, and production of reports helped ensure compliance with the Governing Council's Decisions, the Provisional Rules for Claims Procedure, Decision 10: [S/AC.26/1992/10; 26 June 1992], and pertinent UN Financial Regulations and Rules;
- (b) Evaluate the adequacy of internal controls to ensure a reliable system of claims payments recording and reporting and to prevent loss of funds; and
- (c) Assess the efficiency and economy of the claims payment and distribution system.

4. The audit focused on 1998 and 1999 activities, and covered payments to international organizations and Governments (on behalf of individuals) which claimed compensation for losses as a result of Iraq's invasion and occupation of Kuwait in 1990 and 1991. The audit covered payments through 31 July 1999, which amounted to \$3.15 billion. From this population,

OIOS sampled payments totaling \$714.4 million, or about 23 per cent of the total payments made as of the audit date.

Audit findings and recommendations

5. OIOS observed that, in general, CPS had adequate controls to ensure that relevant Governing Council Decisions and UN Financial Regulations and Rules were complied with, and that records and reports were reliable for the period evaluated. However, the audit observed that certain Governments were late in refunding undistributed funds and in reporting claim payments.

6. OIOS reviewed the documentation and distribution of compensation payments to successful claimants, together with the priorities for such payments as mandated by decisions of the Governing Council. The Governing Council established the number of claims for payment, including the amounts of the awards, the priority of payment and payment mechanism guiding principles, and the initial installment amount to be paid to each successful claimant in categories A, B, and C. OIOS found the payment records examined to be satisfactorily maintained.

7. OIOS also evaluated the allocation of available funds covering Phase I payments to successful claimants, and found such allocation to be satisfactory. In addition, OIOS reviewed the controls over the disbursement of compensation payments and found these to be operating effectively, in accordance with the UN Financial Rules 108.9, 110.3, 110.4, 110.9, and 110.14.

Untimely refunds by Governments

8. OIOS observed that certain Governments did not promptly refund to the Fund undistributed compensation awards made to third party claimants as mandated by Governing Council Decisions 18 and 48. These decisions established the requirements for the distribution of payments and the return of undistributed funds within twelve months after their receipt. Notwithstanding the penalty of suspension of further payments for failure to return undistributed funds and CPS's follow-up with delinquent payee Governments, there were a number of cases of non-compliance. Overall, the outstanding refunds examined by OIOS amounted to \$1,609,550 and were from 10 to 17 months overdue. Governments' failure to refund undistributed funds on a timely basis reduces the resources available for future distribution in respect of payments and also results in the loss of investment income to the Fund.

Recommendation 1

CPCFA should continue to diligently remind Governments to promptly refund undistributed compensation funds and emphasize to payee Governments concerned the financial implications of such delays (Rec. No. AE1999/8/2/001).

UNCC accepted the recommendation to continue to send reminders to the Governments concerned and added that the CPS considers its reminders prior to due dates for refunds to be of great importance to the system of compensation payment. It is OIOS' view that UNCC should consider as well informing the Governments concerned about the financial costs to the Fund resulting from refund delays.

Reporting delays by payee Governments

9. OIOS observed that certain Governments did not report payments in a timely manner as required under the Governing Council's Decision 48 [S/AC.26/Dec. 48 (1998); 2 February 1997], which mandates guidelines for reporting by payee Governments in accordance with the Fund's overall goals. Late reporting undermines the Fund's objective of transparency and accountability. *According to UNCC, a decision of the Governing Council in March 1999 to penalize late refunds by suspension of further release of payments has encouraged Governments to distribute payments and report thereon on a timely basis. While a few countries with a small number of claimants have been suspended from receiving payments for a substantial period of time, nearly all countries with large numbers of claimants have shown considerable progress in limiting the period when they are in default.*

10. OIOS nevertheless observed that in ten payment cases examined, two Governments, representing 587 payments and \$1,457,484 or 90.5 per cent of total outstanding refunds due, had delays of from nine to eleven months beyond the reporting deadlines. The audit recommended that reporting delay patterns of countries be assessed to determine optimal timing of fund distribution and thus improve reporting and refunds. *CPS commented that they held many discussions with representatives of Governments to resolve outstanding payments and reporting problems, and that the secretariat would continue to offer its assistance to those Governments which continue to experience difficulties in reporting on the distribution of payments.* OIOS will follow up on the resolution of reporting problems of the Governments concerned.

Need for independent audit certificates from payee Governments of paid claims

11. The Fund did not require payee Governments to submit audit certificates providing independent attestation of the authenticity of payments distributed to successful claimants. OIOS issued an audit observation on this matter in 1998. Although CPS noted the relevance of this observation, OIOS' recommendation to require the submission of audit certificates was not implemented as a formal policy. OIOS maintains that the failure to require audit certificates or other forms of attestation from independent sources reduces the reliability of the Governments' and paying agents' payment reports, as well as the Fund's financial records and reports.

Recommendation 2

UNCC management should take further steps to ensure that Governments and other paying agents provide audit certificates for payment reports submitted to the Fund (Rec. No. AE1999/8/2/002).

UNCC commented that the CPS shares the view of OIOS that submission of audit certificates by Governments that are responsible for the distribution of compensation payments will provide valuable independent attestation of the authenticity of reports of payments to successful claimants. UNCC further indicated

*that the secretariat would inform the Governing Council of the OIOS
recommendation to require submission of audit certificates.*

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